TALKING THE WALK:

THE DEFLATION RESPONSE TO LEGITIMACY CHALLENGES

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ABSTRACT

Organizations need legitimacy to be able to operate effectively. Consequently, and just like their participants, Multi-Stakeholder Initiatives (MSIs) need to respond when faced with legitimacy challenges from external parties. We build on current theory to identify three organizational elements that can be made the subject of legitimacy critique – i.e., statutory procedures, objectives, mechanisms – and use these elements to structure our analysis of a conflict-ridden case concerning the United Nations Global Compact (UNGC). Whereas prior work suggests that organizations can respond to such conflicts in a fashion consistent with either moral entrapment or decoupling, we show that organizations can also respond by deflating their statutory procedures and objectives. A deflationary response can help organizations maintain their validity by diminishing the ability of external parties to advance propriety legitimacy critiques against them. By examining this alternative response, we expand the scope and refine the analytic detail by which organizational legitimacy conflicts can be investigated.

Keywords

Conflict; Deflation; Legitimacy; Multi-Stakeholder Initiatives; United Nations Global Compact.

INTRODUCTION

Many organizations are at risk of being accused of not 'walking their talk' when their professed policies and practices are not matched by their actual policies and practices. Such accusations represent a key challenge to organizational legitimacy and have been variously discussed in terms of organizational hypocrisy (Brunsson, 2002), window-dressing (Kolk & Perego, 2014), greenwashing (Delmas & Burbano, 2011; Marquis, Toffel & Zhou, 2016) or mission drift (Grimes et al., 2017). Indeed, as the identity, actions and image of organizations are expected to be consistent (King & Whetten, 2008), such critique threatens the positive perception or evaluation of organizations. It raises fundamental questions about their legitimacy, trustworthiness, integrity, authenticity and/or sincerity (Baumann-Pauly, Nolan, van Heerden & Samway, 2017; den Hond, Rehbein, de Bakker & Kooijmans-van Lankveld, 2014; Shymko & Roulet, 2017; Whetten, 2006).

Multi-stakeholder initiatives (MSIs) are an interesting case in this respect due to their explicit association with pro-social goals. MSIs are, after all, voluntary and self-regulatory cross-sector governance structures that aim at enabling their participants (businesses and other organizations) to address moral concerns, such as in relation to environmental, social, human rights, and sustainability issues, in a socially legitimate fashion (e.g., de Bakker, Rasche & Ponte, 2019; El Abboubi & Nicolopoulou, 2012; Mena & Palazzo, 2012; O'Rourke, 2006). It thus is not surprising that MSIs sometimes face legitimacy challenges from external stakeholders (just like their participants whose behavior they seek to modify such that it matches their standards). These challenges are often based on the claim that a given MSI lacks integrity, 'suffers' from mission drift, or, even more fundamentally, is ill-suited to achieve their publicly stated objectives (e.g., Moog, Spicer & Böhm, 2015). In general, then, such critique will be based on a claim that there is a discrepancy between a MSI's actual versus professed policies and practices, between its claimed or aspired identity

and its actions (Grimes et al., 2017), or between its policies and practices and a challengers' expectations.

In addition to these points, the literature also suggests that MSIs, just like organizations in general, can respond to such critique in either of two ways. First, they may respond in accord with *moral entrapment* by upgrading their actual policies and practices to comply with their own previously professed principles, objectives, ambitions, procedures, and so on (Haack, Schoeneborn & Wickert, 2012). Alternatively, MSIs may respond in accord with *decoupling* by maintaining the discrepancy, by keeping their actual, extant and purportedly inadequate policies and practices in place whilst continuing to publicly profess their previously stated and relatively high ambitions (Jamali, 2010). It is generally presumed that such organizational responses – decoupling and moral entrapment – will improve audience perceptions of the organization and restore its legitimacy, trustworthiness, integrity, and/or authenticity (e.g., Grimes et al., 2017).

These two responses relate to the broad question of how organizations "respond to pressures of responsibility and accountability" (Garsten & Hernes, 2009: 4). However, as we became aware of the response to legitimacy critique by the Global Compact Office (GCO) and its Board, who are responsible for managing and overviewing the United Nations Global Compact (UNGC), it became clear these two responses only comprise part of the story: the UNGC's response was different from both the moral entrapment and decoupling responses that the literature led us to expect. We thus decided to conduct a longitudinal case study of this puzzling affair, and asked: How can we best understand the UNGC's response to this instance of legitimacy critique?

The case focuses on a conflict whereby the GCO and its Board were challenged by a group of external critics over a seven-year period (from May 2008 through to February 2015). The source of the conflict was a set of human rights concerns relating to the

controversial Sudanese operations of the parent company of one of the UNGC's corporate members. The critics demanded that the GCO use its statutory procedures and objectives to address the situation. Rather than responding to the conflict in accord with either the moral entrapment or decoupling responses, however, we found that the GCO responded – much to the dismay of the antagonists that initiated the conflict – with a downward adjustment of its statutory procedures and objectives. Instead of promising to 'walk its talk' (moral entrapment) or engaging in evermore front of house 'spin' (decoupling), the GCO responded by 'talking its walk'.

We propose that the case is theoretically relevant as it provides a striking example of a third response strategy to legitimacy challenges that we term *deflation*. We argue that deflation occurs when an organization responds to a legitimacy critique by lowering or downgrading the level of ambition pertaining to its previously professed policies and practices in order to make them consistent with their actual, purportedly inadequate, policies and practices. Deflation comprises a response that is different from both moral entrapment and decoupling, and logically completes the range of viable responses that organizations can employ in the face of legitimacy critique. Moreover, by examining and explicating deflation as a third response strategy to legitimacy critique, we shed further light on the question of "whether and how organizations comply or fail to comply with external political demands" (Weber & Waeger, 2017: 51).

We structure the paper as follows. First, we examine the literature on MSIs and external legitimacy conflicts. We then introduce our more detailed empirical research questions, explain our research design and methods, and present our case analysis. In the discussion section, we outline deflation as an alternative and hitherto unidentified response to legitimacy challenges. In our conclusion, we reflect on the potentially disheartening nature of our findings and offer suggestions for future research.

THEORY

MSIs are private governance structures, or voluntary rule-systems, oriented to helping resolve social, environmental, human rights, or sustainability issues that governments and inter-governmental bodies cannot address easily or effectively (Abbott & Snidal, 2000). Participants in MSIs include multi-national companies, the primary targets of their regulation (Büthe, 2010), and non-governmental organizations (NGOs). Public authorities, and other interested parties (e.g., trade unions), regularly participate in them as well. The foundation of MSIs is often portrayed as the resolution of conflict between multi-national companies and NGOs (Bartley, 2007). For example, the Fair Labor Association was established to improve labor practices in the garment industry's global supply chains by fostering cooperation between major industry incumbents and their NGO critics (O'Rourke, 2006).

The ways in which such cross-sector collaboration can be deployed to facilitate conflict resolution, foster societally beneficial outcomes, and create 'win-win' situations for their participants and other stakeholders, are important themes in studies of MSIs. Their importance is also evident in how MSIs themselves present their mission and activities, emphasizing the non-conflictual, consensual and positive, nature of their initiatives. Beyond thus claiming pragmatic and moral legitimacy (Suchman, 1995) for themselves, MSIs also emphasize how their participants may enjoy legitimacy benefits. Thus, MSIs such as the Extractive Industries Transparency Initiative (EITI website), the Fair Labor Association (FLA website) and the Global Reporting Initiative (GRI website) propose that participating companies benefit from satisfying the diverse stakeholder interests they seek to honor.

Nevertheless, and arguably because of such legitimacy claims, MSIs can be the subject of legitimacy challenges by external critics, such as NGOs and social movement activists (Mena & Palazzo, 2012; Moog et al., 2015). External legitimacy challenges may not only negatively affect the MSI but also its participants; they often rely on their involvement with an MSI for

marketing and public relations purposes and as a point by which to differentiate themselves from competitors. Legitimacy challenges can be a risk for organizations if the challenger's critique gains wider support and traction. That is, when the challenger's individual legitimacy judgments (propriety legitimacy) becomes a shared, collectively held social legitimacy judgment (validity) (Bitektine & Haack, 2015).

In light of the above, and in anticipation of our subsequent case analysis, we now proceed to examine how MSIs may respond to legitimacy critique, and identify three organizational elements – i.e., statutory procedures, mechanisms, objectives – that can be the subject of such critique.

Responding to Legitimacy Critique

Because legitimacy critique has the potential to undermine an organization's validity and thereby its 'license to operate', challenged organizations will often deem it necessary to respond. When the critique relates to such basic matters as organizational integrity, to the collectively held belief or perception that an organization does not live up to its own professed standards, then the organization's validity is very clearly at stake (Bitektine & Haack, 2015). In seeking to protect or restore its legitimacy in the face of integrity critiques, the literature suggests that organizations can employ one of two responses.

First, organizations can respond in accord with what has been termed 'moral entrapment' (Haack, et al., 2012). The basic idea here is that organizations, having committed to a set of principles, will subsequently be inclined to 'walk their talk', "to start enacting their promises" given "knowledge that they will be held publicly accountable for their behavior" (Haack & Scherer, 2014: 234-235). If a participant of the UNGC, for example, were accused of not complying with its labor rights standards, but subsequently proceeded to 'lift its game' so that it does comply (Oliver, 1991), it could be said to have acted in accord with the moral entrapment response.

Second, it has been proposed that organizations can respond to legitimacy critique by employing a 'decoupling' (Meyer & Rowan, 1977: 356-357) response. Decoupling occurs when organizations use concealing or buffering tactics (Oliver, 1991: 154-155) and thus avoid having to live up to the level of ambition as expressed through their publicly professed standards or commitments. Impression management, perception management, window dressing, denial, contextualization (i.e., offering justifications and excuses), and so on, can all be part of a decoupling response. In this way, organizations engage in 'spin': they try to isolate *what they say* from *what they actually do*. An organization, for example, might say that it is willing to reduce the negative environmental impact of its products and services, but continue to make products and services that pay little if any attention to considerations such as climate change, pollution, recycling, and so on (Delmas & Burbano, 2011; Marquis, et al., 2016).

The moral entrapment and decoupling responses can be, and clearly have been, deployed by organizations confronted with mission drift and other kinds of integrity-related legitimacy critiques. Nevertheless, as our case suggests, organizations may also deploy yet another response, *in casu* deflation. Deflation is a response to legitimacy critique by which an organization begins to 'talk its walk': it lowers – 'deflates' – the level of ambition found in its previously professed standards so as to make its pronouncements consistent with its actual, ongoing, and purportedly inadequate, levels of behavior.

Organizational Elements and Legitimacy Critique

Further to identifying the moral entrapment and decoupling response strategies, the literature suggests that different organizational elements can be made the subject of legitimacy critique (e.g., Mena & Palazzo, 2012; Scharpf, 1999; Zürn, 2004). In building on this literature, we term these elements an organization's *statutory procedures*, *mechanisms* and *objectives.*

Statutory procedures. Statutory procedures refer to the policies, processes, and practices that relate to the governance of an MSI, and to the ways in which different interests and constituents are included therein (Bäckstrand, 2006; Gilbert & Rasche, 2007). Some of the most prominent debates in business ethics and organization theory are focused on statutory procedures. For instance, debates between stakeholder (Evan & Freeman, 1988) and shareholder (Heath, 2006) theorists revolve around the question who should have a 'voice' (Hirschman, 1970) in corporate decision-making. Likewise, the considerations on input legitimacy identified by Scharpf (1999) and Mena and Palazzo (2012) in effect amount to concerns regarding statutory procedures.

As organizations in modern societies are characterized by a significant variety of statutory procedures, we emphasize that, in general, it should not be assumed that organizational statutory procedures need to be democratic in order to be considered legitimate. Habermas (1996: 39-40), for example, recognized that, for a variety of reasons, it will often be considered legitimate for some executive functions of the State, as well as for other kinds of organizations, to be governed in more bureaucratic and hierarchical than democratic fashions. However, as MSIs tend to emphasize the importance of consensus in their various activities, the suggestion that an MSI's statutory procedures are insufficiently democratic is thought to be particularly harmful (Mena & Palazzo, 2012).

Mechanisms. Mechanisms refer to the manner by which an organization seeks to achieve its objectives. The literature divides the mechanisms by which MSIs seek to achieve their objectives into two broad categories: 'strong/hard' versus 'weak/soft'. 'Strong' or 'hard' MSIs are those that construct rules, and that seek to maximize compliance with norms and "impose real obligations on firms" (Berliner & Prakash, 2012: 156). They often enforce relatively stringent compliance and auditing procedures, and are commonly associated with externally monitored and certified labeling schemes that enable the outputs associated with them to be

distinguished from those that are not: e.g., fair trade from non-fair trade coffee, FSC certified from non-FSC certified timber (Mena & Palazzo, 2012). The 'strict father' analogy quickly communicates the mechanism of strong or hard MSIs (Haack & Scherer, 2014). 'Weak' or 'soft' MSIs encourage learning and best practice approaches to achieving the objectives they endorse. They provide relatively few means by which the achievement of their principles might be enforced (Berliner & Prakash, 2012; Mena & Palazzo, 2012). Analogically, they have been referred to as the 'nurturing parent' model (Haack & Scherer, 2014).

Soft MSIs, and the UNGC in particular, have often been criticized for being little more than public relations exercises that enable participants to derive reputational benefits at little or no operational cost (Berliner & Prakash, 2012; Sethi & Schepers, 2014). The supporters of such MSIs, however, posit that softness can actually be a strength: it can enable participants to be "self-disciplined and self-reliant citizens" (Haack & Scherer, 2014: 231) with genuine commitment. Supporters of soft MSIs have also suggested that the utility of hard MSIs can be undermined by encouraging their participants toward insincere or perfunctory compliance with the MSIs' rules and principles (Ruggie, 2002). Such debates amount to the appropriateness and quality of the means by which MSIs seek to achieve their objectives and can give rise to critique that harms their legitimacy in the case they are perceived as perfunctory.

Objectives. Objectives refer to the aims that MSIs profess to achieve, to the problems that they claim to help resolve. Although the formulation of objectives provides an MSI with its *raison d'être*, the fact that an MSI's objectives can be criticized, and potentially harm its legitimacy, has received surprisingly limited attention.

One exception is provided by Levy, Reinecke & Manning (2016: 381), who referred to conflicts over whether or not Fairtrade coffee MSIs should have the objective of advancing "a new economic order" or of enabling "'poverty reduction' and 'sustainable development'".

Fransen (2011) provides another exception when he showed that there have long been debates as to whether or not the objectives of labor rights MSIs should be more closely aligned with relative standards (such as expressed in national laws) or with universal standards (such as expressed in international standards). More generally, there continues to be relatively widespread concern that the social and environmental standards that MSIs commonly profess to advance, may result in the undermining of the 'narrower' and more immediate concerns of economic development (Jerbi, 2009).

As these discussions demonstrate, legitimacy conflicts that involve MSIs, and other organizations as well, can relate to one or more of three organizational elements: i.e., their statutory procedures, their mechanisms, and their objectives. The differentiation of these three elements is important because it can help unravel the underlying grounds for legitimacy critiques. Moreover, it can help us to better understand organizational responses to such critiques, and thus move us towards a fuller understanding of how legitimacy critiques play out over time.

METHODS

Approach

Our longitudinal case study relates to a conflict between two activist NGOs: Investors Against Genocide (IAG) and the Centre for Research on Multinational Corporations (SOMO), and the organizations responsible for managing and directing the UNGC: the Global Compact Office (GCO) and its Board. The conflict concerned the controversial Sudanese operations of China National Petroleum Corporation (CNPC), the parent company of UNCG member PetroChina. In short, IAG and SOMO wanted the GCO to pressurize CNPC/PetroChina into convincing the Sudanese State to end its suppression of the people in Darfur. The conflict is a distinct episode in a broader and longer lasting set of efforts by activist groups around the world in support of the people of Darfur. Nevertheless, it is not this

broader conflict that is of interest here, but the much more specific conflict that the activist NGOs initiated against the UNGC, and that ultimately resulted in the GCO and its Board unexpectedly employing the deflation response.

The unexpected nature of this response became apparent during our initial investigations of the conflict. Therefore, we decided to explore it further, believing that the extant literature might be 'incomplete' (Locke & Golden-Biddle, 1997) and therefore in need of further theory development (Edmondson & McManus, 2007). In building on our theory section, we further specified our question for empirical research: How did the challenging organizations, IAG and SOMO, and the targeted organization, UNGC, make use of the UNGC's statutory procedures, mechanisms and objectives in creating and respectively responding to their conflict over the UNGC's legitimacy?

Informed by our reading of the literature and by our evolving understanding of the case, we expected that our analysis could shed light on the management and handling of this legitimacy conflict by the UNGC, which we came to conceive as a deflation response. Although case studies are limited in not allowing for the assessment of the prevalence of a phenomenon, or for precisely predicting antecedents that lead to the phenomenon (Eisenhardt & Graebner, 2007), they can be very useful in exploring theoretical arguments with relevance beyond the case at hand (Siggelkow, 2007). In short, having completed our analysis and discussion, we believe our approach has allowed us to understand the UNGC's surprising response to this externally initiated legitimacy conflict as an instance of deflation.

Data collection and analysis

The case analysis builds on archival materials that are publicly accessible through the Internet. Our use of archival materials has the advantage of being nonreactive and unobtrusive (Duriau, Reger & Pfarrer, 2007). These qualities are particularly important for analyzing controversial topics, because they help avoid all the problems associated with

gathering data from informants that likely have a keen interest in being perceived by the researcher in a certain light (Alvesson, 2003). We entered combinations of keywords, such as Sudan, Darfur, CNPC, PetroChina, UNGC, SOMO and IAG, in various major Internet search engines (Google, Bing) to retrieve relevant documents, and checked if hyperlinks in them might disclose further relevant information. Unsurprisingly, a majority of the documents we found originated from websites maintained by IAG and UNGC, the central players in the conflict. Several documents, such as press statements issued by these protagonists, were regularly re-published on multiple other websites, thereby creating redundancy in primary materials. We decided to use the original rather than the reposted documents. The set of documents thus compiled allowed us to gain an in-depth understanding of the case, including its context and key events in the case history. Altogether, they comprise approximately 200 A4 pages of text, including press releases, formal letters, blog entries, board meeting reports, public statements, and newspaper articles. We focused on data that directly related to both PetroChina (or CNPC) and the UNGC.

We started our qualitative, longitudinal case study by identifying in our data set all the events that pertain to the conflict. Events are the building blocks of process studies (Van de Ven & Poole, 2005); they comprise the appearance, disappearance, or change of entities (such as agents, interventions, states of affairs, or external shocks) in relation to, and of consequence for, a process of interest. In identifying events, we looked for agents, their interventions, and their positions vis-à-vis the conflict. Altogether, we identified 30 events through which the conflict evolved. Table 1 chronologically lists and briefly describes these events and the sources through which we identified them.

– Insert Table 1 about here –

Our subsequent analysis of these 30 events comprised three steps. First, we identified whether each event was associated with a supportive or a critical stance towards the UNGC

('Stance', Tables 1 and 3). 'Supportive' means that the general tone of the source material discusses UNGC in a positive light: e.g., by expressing satisfaction with the UNGC's approach. By contrast, 'critical' means that the general tone of the source material is negative. In such instances, the source material sometimes demanded, more or less explicitly, that the UNGC needed to make some sort of change to its policies or operations. This first coding step is important in the context of analyzing conflict, because it helps explicate that such texts are produced deliberately, and that they seek to influence the conflict's outcome. For example, Event 27 is the publication of an interview with Georg Kell, the then Executive Director of the UNGC. In this interview, Kell seeks to bolster the validity of the UNGC by pointing out that it 'delists' member companies that use the Global Compact for PR purposes only. Thus, Event 27 is clearly supportive of the UNGC. This first step was straightforward as most of the events relate to documents authored either by the UNGC and agents acting on their behalf, or by its antagonists.

In the second step, and in light of our review of the literature, we developed a set of coding guidelines to capture our three elements of statutory procedures, mechanisms and objectives (see Table 2), and conducted a pilot analysis to confirm that these three elements are indeed important to make sense of our case (Eisenhardt, 1989). The coding guidelines made coders identify whether or not a given event was explicitly associated with a supportive or a critical position on the UNGC's statutory procedures, mechanisms or objectives (the 'value' dimension in Table 2). A 'critical' position on the UNGC's objectives, for example, could manifest in the form of comments suggesting that UNGC's participants do not comply with its human rights principles, or in the form of a statement suggesting that the UNGC's human rights principles were somehow being 'watered down'. By way of contrast, a 'supportive' position on the UNGC's objectives could suggest that the UNGC's participants generally adhere to its human rights principles, or that the UNGC's principles are consistent

with more general understandings of human rights. The coding guidelines made the coders further identify whether or not an event was explicitly associated with a (desired or effectuated) change to the GCO's statutory procedures, mechanisms or objectives (the 'dynamics' dimension in Table 2). If, for example, a source document suggested that the GCO was considering some sort of change to its objectives (e.g., to its human rights principles), then this would result in the source being coded as 'change'. If, on the other hand, the source document referred to its objectives, and made no reference of any prior or potential change, then it would be coded as 'stable'.

In the third step, two of the authors independently coded all 30 events following the thus developed guidelines. Their initial efforts resulted in 86% of coded elements being agreed upon (165 of 192). They resolved their disagreement on the remaining 27 elements through deliberation, assessing the validity of their respective evidence and arguments for their particular choices and agreeing on the most plausible interpretation as the final coding. Following this process of weighing arguments, the authors were able to agree on the coding of all the events (Table 3). On this basis, we were able to identify key patterns and points of development during the conflict episode, and thus to complete our analysis of the antagonists' critique and the UNGC's response in terms of the UNGC's objectives, mechanisms and statutory procedures.

– Insert Table 2 and Table 3 about here –

Case actors and context

The UNGC and Global Compact Office. At the World Economic Forum in Davos, on January 31, 1999, the then UN Secretary-General Kofi Annan proposed that "you, the business leaders gathered in Davos, and we, the UN, initiate a global compact of shared values and principles, which will give a human face to the global market" (United Nations, 1999: 1). Subsequently launched on July 26, 2000, the objective of the UNGC is to

"contribute to a more stable, equitable, and inclusive process of globalization" (Kell & Levin, 2003: 162). To do so, the "Global Compact engages the private sector to collaborate with the United Nations – in partnership with global labor, NGOs, and academia – to identify and spread good corporate practices in the areas of human rights, labor rights, protection of the environment, and anticorruption" (Rasche, 2009: 513). With over 12,000 signatories including 8,000 business firms (as of March 7, 2017), the UNGC is arguably the world's largest multi-stakeholder initiative to advance corporate sustainability.

The GCO is responsible for managing the UNGC. Georg Kell was its director from 2000 to 2015, i.e. the period our case analysis covers. The GCO is endorsed by the UN General Assembly. The UN Secretary General chairs the Global Compact Board and has the right to appoint its other members (UNGC website). The Board provides strategic advice and recommendations to the GCO and "is comprised of four constituency groups — business, civil society, labour and the United Nations" (UNGC website). As of 2014, there were 27 members of the Global Compact Board, 17 of which were from the business constituency.[1]

Following a proposal for "broader ownership" of the UNGC (2005: 1-2), the non-profit Foundation for the Global Compact (FFGC) was established (FFGC website). The FFGC's "sole purpose is to mobilize funding from participants to support the growth of the Global Compact. Its small board is chaired by Sir Mark Moody Stuart [former chairman of Royal Dutch Shell] who has been a champion and steward of the Global Compact since its inception" (UNGC, 2008: 6). Whereas the GCO still receives funds from countries in the UNGC 'Government Donor Group'[2], by 2012, corporate funding through the FFGC had risen to almost 80% of its income ($US 12,7 million). The UNGC's prior "self-imposed rule not to

[1] Current membership of the Board can be found at the UNGC's website.
[2] Chile, China, Colombia, Denmark, Finland, France, Germany, Italy, Korea, Norway, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

accept corporate funding for Global Compact activities" (Kell & Levin, 2003: 170) has thus become void, with relatively significant amounts of corporate funding now being received.

As the above indicates, the UNGC has already undergone various changes (Kell, 2012). With the present case, we focus on changes that the GCO and its Board initiated in response to the challenge that IAG and SOMO, with the support of more than 80 'signatories', presented in their critical letter to UNGC Executive Director Georg Kell on May 12, 2008 (Table 1, Event 1).[3]

The Antagonists. Founded in 2006, IAG is a project of the Massachusetts Coalition to Save Darfur: "a collaboration of faith-based and secular organizations and concerned individuals working together to raise awareness and help address the problems in Darfur, Sudan" (MCTSD website). IAG is a single-issue activist NGO with the goal of convincing "financial institutions to make a commitment that they will not invest in genocide" (IAG, website).

SOMO, founded in 1973, presents itself as "an independent, non-profit research and network organization working on social, ecological and economic issues related to sustainable development" (SOMO, website). SOMO receives funding from the Dutch government and the European Commission, among other donors, and provides commissioned research that aims at exerting influence over multinational companies on sustainable development matters (SOMO, 2013: 9). SOMO promotes 'hard' solutions to business-society problems (SOMO, website). In this manner, SOMO maintained the Global Compact Critics Blog (operational to the end of the conflict in 2015; Table 1, Event 30) to "gather and share information about the Global Compact, partnerships between the United Nations and companies, and corporate accountability" (GCCB website).

[3] As only one of the 80 Signatories is a UNGC participant, the conflict constitutes an external legitimacy conflict.

CNPC/PetroChina. Although not central to the MSI conflict itself, it is important that we also provide some summary remarks regarding CNPC/PetroChina and their role in Sudan, as their activities provided the motivation for the antagonists to challenge the UNGC. CNPC was created in 1997 following a restructuring of China's oil and petrochemical industry (Zhang, 2004: 101-104). In April 2000, a significant subsidiary of CNPC, PetroChina, "was listed on the New York and Hong Kong stock exchanges. The initial public offering … raised $2.89 billion" (Zhang, 2004: 115). PetroChina is also listed on the Shanghai stock exchange; nevertheless, 86.01% of PetroChina's stocks continue to be owned by CNPC (PetroChina, 2017: 10). CNPC, in its turn, is 100% owned by the Chinese State (CNPC, 2013: 5) which is controlled by the Chinese Communist Party (CCP). Through these ownership structures, CNPC/PetroChina can be thought of as an instrument for the strategic interests of the Chinese State and the CCP.

In many ways, CNPC and PetroChina are 'one and the same' company. Indeed, leading personnel, resources, and projects, are commonly shared between them. So too is their concern with the CCP's domestic (Shambaugh, 2008) and foreign (Chan, Lee & Chan, 2008) policies. Nevertheless, there are also differences between CNPC and PetroChina. In particular, CNPC operates in Sudan, whereas the UNGC member PetroChina does not. Arguably, the CCP put the Sudanese assets "in the hands of CNPC … rather than … PetroChina … to increase flexibility and reduce potential shareholder pressure" (Lieberthal & Herberg, 2006: 18).

CNPC started its oil business in Sudan in 1995, taking over part of the concessions of Western oil companies that were forced to divest from the country when Sudan was added to the US list of 'State Sponsors of Terrorism' in 1993. Although there are other key players in the Sudanese oil industry, CNPC is the largest among them (Kienzler, 2012). In this light, and as "more than 70 percent of the [Sudanese] government's share of oil profits is spent on

defense" (Gettleman, 2006), CNPC was regularly accused of providing the Sudanese State with the financial means to perpetuate genocide in Darfur (Kienzler, 2012).[4]

ANALYSIS

Since 2003, the Sudanese government has been accused of repressing the population of the Darfur region – a genocide according to many commentators (Hagan, Rymond-Richmond & Parker, 2005; Strauss, 2005). Following suit, a global network of activist groups, including IAG and SOMO, sought to convince the Sudanese government to stop its repression. Given this context, IAG and SOMO were surprised that PetroChina – whose parent company, CNPC, has been accused of helping fund genocide in Darfur (see above) – had become a member of the UNGC. Consequently, IAG and SOMO tried to use the UNGC's own procedures and complaint mechanism to make the GCO pressure CNPC into using its influence to encourage the Sudanese government to put an end to its campaigns in Darfur. To that end, IAG and SOMO first sent a letter to the GCO that was co-signed by 80 other organizations in May 2008. As is clear from our data, the subsequent conflict was characterized by a critically charged exchange of letters and public statements between IAG/SOMO and GCO. It was of clear concern to the GCO and its Board. In this section, we analyze the UNGC's response to the challenge in terms of its mechanisms, statutory procedures, and objectives.

The UNGC's Mechanisms

Based on Table 3 we observe that, whilst the UNGC's mechanisms were criticized at both the beginning and end of the conflict (Events 1 & 30, Table 3, mechanisms>value), the conflict did not result in the UNGC's mechanisms being changed (mechanisms>dynamics). Indeed, the only other instances at which mechanisms were a point of focus during the conflict were

[4] The recent history of Sudan, including the Darfur crisis, has been covered in publications such as Gallab (2008), Gettleman (2006), Johnson (2007), and Patey (2007).

when Hugh Williamson of the *Financial Times* published an article that was critical of the UNGC's role in emerging economies (Event 19), and when the UN's independent oversight body, the Joint Inspection Unit (JIU), released a report that was very critical of the UNGC's overall role and functioning (Event 20).

Given how much discussion there is of MSI mechanisms in general, and those of the UNGC in particular (e.g., Haack & Scherer, 2014; Rasche, 2009; Ruggie, 2002), we were initially surprised that the UNGC's mechanisms had not played a more significant role during the conflict. We were also quite surprised that several of the Events that were characterized by their critical stance toward the UNGC were coded as being supportive of the UNGC's mechanisms. Whilst unexpected, we came to interpret this 'support' as a tactical move by the antagonists: as an attempt by the antagonists to force the UNGC to substantiate its longstanding claim that its 'soft' regulatory mechanism is effective (e.g., Kell, 2003, 2005).

Substantiating this claim would have required that the UNGC took its stated objectives seriously and followed its own statutory procedures. As the UNGC did not proceed to 'walk their talk' in these ways, however, SOMO, in particular, took the conflict's outcomes as yet further evidence of the weakness, ineffectiveness, and ultimate futility, of the UNGC's soft mechanisms. Thus, and further to beginning the conflict in 2008 by criticizing the UNGC's "lack of effective monitoring and enforcement" mechanisms (Event 1), SOMO ended the conflict in 2015 by noting that, whilst it would no longer update their Global Compact Critics Blog, it would nevertheless "continue to monitor the (in)effectiveness of voluntary corporate responsibility guidelines and initiatives" whilst prioritising "its work on contributing to the development of internationally binding and enforceable instruments" (Event 30).[5]

[5] IAG has likewise acknowledged that their campaign has ended. As of April 18 2019, their website continues to note that: "Investors Against Genocide engaged extensively with the UN Global Compact regarding PetroChina. Ultimately, that engagement failed. Investors Against Genocide is no longer engaging the UNGC".

The UNGC's Statutory Procedures

As the antagonists recognized, the UNGC's Integrity Measures provided a means by which external parties might seek to impact upon the UNGC's functioning and decision making, and thus comprise a key element of the UNGC's statutory procedures. In particular, the antagonists noted that their "concerns fall under Measure Four of the GC Integrity Measures: 'Allegations of Systematic or Egregious Abuses.' In this measure, the GC states that 'safeguarding the reputation, integrity and good efforts of the Global Compact and its participants requires transparent means to handle credible allegations of systematic or egregious abuse of the GC's overall aims and principles'" (Event 1).

The allegation that the antagonists advanced under this measure was that CNPC/PetroChina was systematically and egregiously abusing UNGC Principles 1 and 2. Principles 1 and 2 respectively state that businesses "should support and respect the protection of internationally proclaimed human rights," and that businesses should ensure "that they are not complicit in human rights abuses" (Event 1). In seeking to use Measure Four of the UNGC's Integrity Measures, the antagonists were initially supportive of it. In subsequent correspondence, however, they came to express their frustration at what they perceived as both CNPC/PetroChina's and the GCO's failure to take their claims seriously (Events 4-6) (Table 3, statutory procedures>value).

In responding to this expressed dissatisfaction, Kell (Event 8) and Moody-Stuart (Event 10) emphasized that the Integrity Measures could not be applied to CNPC as CNPC was not a member of the UNGC. Moody-Stuart (Event 10), however, also indicated that UNGC would soon revisit these measures. Hence, the Global Compact Board held a meeting on 24 July 2009 at which they reviewed progress on their Integrity Measures and agreed that there was a need for "clarification of what the integrity measures are and are not through a set of

'frequently asked questions' (FAQs)" (Event 12). At this instance, we observe the seed for the deflation of the UNGC's statutory procedures (Table 3, statutory procedures>dynamics).

In particular, the FAQs stated that the "main vehicle" for safeguarding "the integrity and good efforts of the UN, its Global Compact, participants and stakeholders" is *not* the UNGC's Integrity Measure relating to Allegations of Systematic or Egregious Abuses – as one would expect in light of the critique by IAG and SOMO – but rather its "Policy on Communicating Progress" (Event 12). This policy "requires every participant to share on an annual basis with their stakeholders their progress in implementing the Global Compact principles" (Event 12). Moreover, the FAQs emphasize that "when the Global Compact receives information suggesting that a participant company is not committed to continuous improvement, the Global Compact will endeavor to encourage dialogue between the company concerned and those who have raised the concerns." Nevertheless, the FAQs also note that if a "company provides a plausible rationale for its refusal" to "respond in writing" to such concerns, the GCO can let the matter be (Event 12).

In addition to all this, the notes to the July 24, 2009, Board meeting (Event 12) reveal that:

> *As for the timing and extent of information released publicly on matters raised [through the Integrity Measure relating to Allegations of Systematic or Egregious Abuses], the Board did not reach a concrete conclusion, recognizing that this was a complex situation, with factors to be considered including ensuring appropriate time to understand the facts, guarding against public grandstanding and navigating other sensitivities.*

The UNGC eventually updated its Integrity Measures in April 2011. In line with the preceding developments, this document stated that the GCO can "use its judgement to filter out prima facie frivolous allegations" (Event 24).[6] In other words, the UNGC reserved the right to dismiss, without further ado, any allegations by external parties as 'frivolous' and as

[6] In June 2016, after the conflict had ended, the UNGC published another update of its integrity measures. In this version, there is longer reference to 'frivolous allegations' but the tone and direction remain highly similar to the earlier versions of the integrity measures.

exemplifying instances of ‘public grandstanding’. It thus made it much more difficult for external parties to hold the UNGC accountable for its policies and practices.

In addition to the above, the UNGC also changed the composition of its Board by strengthening its business faction, thereby further compromising its claimed inclusivity and representativeness. Specifically, in May 2011, two members of the CCP with overlapping interests to those of CNPC/PetroChina were appointed to the UNGC Board: Mr. Fu Chengyu, Chairman of Sinopec Group, and Mr. Li Decheng of the China Enterprise Confederation (Events 25 and 26). This was much to the disappointment of the antagonists, because they expected that these appointments would reinforce the position of PetroChina within the Global Compact.

In general, then, the UNGC deflated its statutory procedures by making them less inclusive and less transparent (Mena & Palazzo, 2012: 537-540). Rather than positively responding to the antagonists’ concerns, the GCO and its Board increased their own discretion when it came to adjudicating upon, and releasing information about, future allegations of systematic or egregious abuse. These changes are inconsistent with the UNGC’s long-standing emphasis on the importance of making globalization more inclusive, and thus constitute a deflation of the UNGC’s statutory procedures.

The UNGC’s Objectives

Since the very start, the UNGC’s mission has been to help business align its practices with human rights and labor rights, and help promote sustainability (United Nations, 1999). Having subsequently added anti-corruption concerns to its mission, the UNGC now has 10 principles that UNGC participants are meant to “incorporate into their strategies, policies and procedures” (UNGC, website). As has already been indicated, the UNGC’s objectives relating to Principles 1 and 2 – which respectively state that businesses “should support and respect the protection of internationally proclaimed human rights,” and that businesses should ensure

"that they are not complicit in human rights abuses" (Event 1) – were central to the antagonists' decision to initiate the conflict.

Indeed, the fundamental concern the antagonists had throughout the conflict was that CNPC/PetroChina was abusing these two principles given their connection to the Sudanese government (e.g., Event 1). This charge represented a very significant legitimacy threat to the UNGC, and the documented evidence suggests that the GCO and Board faced serious difficulties in responding to it.

Event 8 marks the first attempt at formulating a meaningful response, with Kell noting that the UNGC takes "the issue of business and its role in conflict and peace very seriously" and that there are plans afoot "to embark on a study into the trade-offs between engagement and divestment." Following this, Moody-Stuart (Event 10) noted that whilst there "are many different views" on withdrawal or divestment from countries given human rights concerns, he was not "in general favour of" it. Moody-Stuart also acknowledged that the "United Nations Global Compact does not currently have any guidance for business on the issue of whether and, if so, how to engage in human rights advocacy with a government" (Event 10).

In following on from these prior steps, which appear to have been relatively defensive and evasive, the UNGC began to elaborate on them at a Board meeting in 2009 (Event 12). As the antagonists lamented, the GCO and its Board used this meeting to propose that Principles 1 and 2 did not require that CNPC/PetroChina "use its influence to ask the Sudanese Government to pursue specific actions linked to peace building" (Event 13). Following on from this, the UNGC published a *Good Practice Note* on 'How Business Can Encourage Governments to Fulfil their Human Rights Obligations' in March 2010 (Event 15). Here it was emphasized that "when faced with a human rights situation, companies may initially consider inaction or divestment/disinvestment the only courses of action, however … there is

a wide spectrum of opportunities through which business can engage with government on human rights issues" (Event 15).

In conjunction with John Ruggie, the then *UN Special Representative on the Issue of Human Rights and Transnational Corporations and other Business Enterprises*, the UNGC emphasized that they did not characterize public policy advocacy as being part of businesses duty to *respect* human rights; but rather, as part of the voluntary contributions to *support* human rights (Event 16). The general importance of the distinction is the stipulation that complicity in human rights abuses does not emerge through "mere presence in a country, paying taxes, or silence in the face of abuses" (Ruggie, 2008: para 77). With regard to the present case, the importance of this distinction is in its implication that CNPC/PetroChina is not morally obliged to pressure the Sudanese government to play a more positive role with regard to ending the humanitarian crisis in Darfur. Whilst not being explicit on the point, it appears that the UNGC would consider such engagement in "matters of foreign policy" (Event 12) an act of supererogation at best (Event 18). The emphasis on this technical distinction was a dismal and somewhat confusing result for the antagonists, who noted that the "Global Compact Office has [previously] acknowledged that... 'respect and support for human rights are often closely interlinked in [practical] terms'" (Event 17).

The basic point is that by differentiating between an organization's *obligation* to 'respect' human rights and an organizations *voluntary choice* to 'support' human rights, and by associating human rights advocacy with the latter, the UNGC deflated its objectives regarding human rights.[7] In doing so, the UNGC followed Ruggie (2008: 65-72) in adopting a form of

[7] Another stance would have been possible for the UNGC. For example, the Dutch Pension giant ABP argued, when it divested from PetroChina in 2012, that an apparent unwillingness to support human rights is inconsistent with UNGC Principles 1 and 2 (IAG, 2012).

"human rights minimalism" that makes supporting (or protecting) human rights a choice rather than an obligation (Wettstein, 2012: 741-745).

DISCUSSION

The preceding analysis has demonstrated the utility of analytically differentiating between an MSI's statutory procedures, mechanisms and objectives in legitimacy conflicts. In supplementing prior work on the UNGC in particular, which has largely focused on the legitimacy of the UNGC's mechanisms (e.g., Berliner & Prakash, 2012; Haack & Scherer, 2014; Rasche, 2009; Sethi & Schepers, 2014), it has shown that legitimacy conflicts can also relate to statutory procedures and objectives.

Legitimacy conflicts typically focus on a perceived or actual discrepancy between some agent's professed and actual policies and practices. Conflict arises when the (high) levels of ambition expressed in professed policies are not met through the (low levels of) actual practices. When this occurs, an organization can be accused of hypocrisy or of lacking integrity, and thus have its pragmatic or moral legitimacy undermined (Suchman, 1995). Hitherto, the literature has suggested that organizations that are confronted with such legitimacy threats can respond through decoupling or moral entrapment. The case we have analyzed suggests that deflation is a third generic response, fundamentally different from decoupling and moral entrapment, to externally constructed legitimacy critiques.

Deflation differs from the longstanding recognition that organizations can employ a decoupling strategy (e.g., Jamali, 2010) that results in their keeping their actual policies and practices at a level of ambition that is relatively lower than the ambition that they have previously professed, and continue to profess (Figure 1, *decoupling*). Deflation also differs from the 'moral entrapment' strategy (Haack, et al., 2012; Haack & Scherer, 2014) which results in organizations lifting their actual policies and practices upwards, so as to make them

consistent with the relatively high standard of promises that they have previously professed, and continue to profess (Figure 1, *moral entrapment*).

In contrast to these two strategies, then, our analysis has revealed that the GCO and Board resolved the discrepancy between their professed and actual policies and practices by lowering their professed policies and practices, thus bringing them in line with their previously and currently actualized policies and practices (Figure 1, *deflation*). In the remainder of the discussion, we discuss whether deflation is a unique phenomenon and why organizations might resort to deflation in response to legitimacy critique.

– Insert Figure 1 about here –

A Unique Phenomenon?

We posit that deflation, as a theoretical concept, is clearly distinct from concepts in three potentially related literatures.

First, the downward adjustment of a standard, as seen in the case of UNGC, could – perhaps – be interpreted and understood as a renegotiation of an internal rule as per Strauss's (1978) negotiated order theory or Reynaud's (1989, 1995) theory of social regulation. On this interpretation, the UNGC's formulation of its statutory procedures and objectives is a form of 'control regulation' that comprises a guide for action. Irrespective of the question as to whether PetroChina's 'self-regulation' complies with the UNGC's control regulation, the challenge that IAG and SOMO pose to the UNGC arguably made the GCO, its Board, and PetroChina (and perhaps other UNGC members, too), realize that the UNGC's control regulation was no longer adequate. Hence, it might be thought that these parties renegotiated the regulation to the reported outcome among themselves; and there was no involving of IAG, SOMO, or any other external party.

Such an explanation, however, would be a stretch of Strauss' and Reynaud's theories. It would involve a clear change of context from a traditional, hierarchical organization, to a

meta-organization (Ahrne & Brunsson, 2008). It would also entail a shift in the impetus for negotiating the regulation, from internal dynamics between managers and employees to dynamics instigated by an external party that is not involved in the renegotiation. On this basis, we believe that the dynamics around the deflationary response might be understood as constituting an extension to Strauss's and Reynaud's theorizing.[8]

Second, deflation might also be conceived in terms of Boltanski and Thévenot's (2006) economies of worth perspective. Taupin's (2012) analysis of credit rating agencies, for example, built on this body of work to identify different activities aimed at "institutional maintenance", including "confirmation work in which the actors repeat or reformulate the existing regulatory arrangement or simply refuse to take part in the debate" (Taupin, 2012: 529). He also noted that actors can engage in qualifying objects according to an existing concept of regulation, or they can agree to disagree and thus maintain the status quo. On this basis, Taupin (2012: 533) points to the notion of 'compromise' which "makes it possible to find a way to live together despite insurmountable oppositions." In a way, deflation might be seen as a form of compromise since regulations are brought in line with practices, giving up on some of the professed policies and practices. Yet, as the antagonists in our case were not involved in the reformulation of the regulatory arrangements, this explanation does not hold: compromise requires some mutual agreement.

Third, the notion of 'mission drift' might also be seen to describe the phenomenon we have here analyzed. According to Grimes et al., (2017: 3), mission drift occurs when an audience perceives a discontinuity between an organization's action and its perception of what is central and distinctive about the organization: the organization's image. More

[8] We are grateful to one of our Reviewers for having attended us to Strauss' and Reynaud's theories of negotiated order and social regulation.

specifically, Grimes et al, (2017) propose that, in responding to an audience's perception of such mission drift, organizations will initially be inclined to respond through impression management practices. If such impression management practices turn out to be unsuccessful, then these organizations will be inclined to resort to governance-related efforts to repair the connection between an organization's image and its action. In the language of this paper, impression management is exemplary of decoupling, of actively creating or maintaining a discrepancy between image and action. On the other hand, governance-related changes that seek "to improve the coordinating function of the organization to demonstrate strides toward high consistency" (Grimes et al., 2017: 37), as well as other structural changes designed to signal that the organization is responsive to the audience's concerns, are exemplary of moral entrapment. Given these points, we conclude that deflation, as defined and discussed in this paper, has not yet been identified by works focused on mission drift, economies of worth, negotiated orders or social regulation.

Whilst we believe that our study has identified a relevant novel concept, we do not make any claims to its prevalence. Having said that, and as the deployment of a deflationary response may seem a rare event, we note that a recent case involving FIFA, the International Federation of Football Associations, suggests it is not unique. On August 12, 2018, FIFA published a revision of its code of ethics. AP News reported on the revision with the subheading "FIFA has officially eradicated corruption [from its code of ethics]. All it took was pressing the delete key." In short, and in light of a history of well publicized allegations of misconduct that have threatened its integrity, it appears that FIFA has deflated its objectives by removing the mentioning of 'corruption' from its code of ethics. Moreover, it appears that it has also deflated its statutory procedures by introducing a defamation clause to make it more difficult for those bound by the FIFA code of ethics to raise concerns regarding corrupt practices. FIFA in turn argues that this is mainly a matter of translation in different

working languages used by the organization.[9] Similar to the case of the UNGC, FIFA's employment of the deflation response has gone largely unnoted, which indicates that in these instances at least it has been a success.

Why Deflation?

Whatever one thinks of the moral worth of their doing so, the GCO and its Board employed a deflationary response to a legitimacy critique. By deflating their statutory principles, they reduced the possibility for moral deliberation with challengers; and by deflating their objectives they reduced the risk of being accused of mission drift, lack of integrity, hypocrisy, and so on. In this fashion, the GCO has reduced the likelihood of propriety-legitimacy critiques (Bitektine & Haack, 2015) being raised. As a result, it appears to have reduced the likelihood of critical external parties vociferously creating a "mental alarm" (Tost, 2011) that would prompt other stakeholders to revisit their own propriety judgments, and that could act to "erode the perception of consensus around [the UNGC's] validity" (Bitektine & Haack, 2015: 59). Of course, external critics remain free to raise their concerns regarding the UNGC in various other arenas of citizenship (Whelan, Moon & Grant, 2013), but the GCO and Board has apparently sought to ensure that the UNGC's statutory procedures do not encourage any critical 'public grandstanding' within those arenas that they themselves directly control.

Yet, the question still arises as to *why* an MSI or another organization would employ a deflationary response? For now, we can only speculate about the conditions under which deflation may occur – our data do not reveal the underlying motives of the UNGC.

[9] "Keep bribes quiet for 10 years, FIFA won't punish you" (Harris, 2018a). In spite of FIFA's (2018) denial of the charge, our own comparisons of the 2012 and the revised 2018 versions of the FIFA's ethical codes show that Harris' report seems largely correct (e.g. sections on 'Limitation period', 'Offering and accepting gifts and other benefits', 'Commission', 'Non-discrimination / Discrimination and defamation', new section on 'Plea bargain (application of sanctions by mutual consent)') (see also Harris, 2018b).

Nevertheless, work by Bitektine and Haack (2015) points to it being informed by a belief that any critical claim, irrespective of whether or not it is well founded, can fracture the appearance of an organization's validity. Such work likewise suggests that if the GCO and Board had complied with the demands of the antagonists, then they would have run the risk of such compliance being widely reported. Such reporting, in its turn, could have then encouraged other external critics to use the UNGC's statutory procedures in a similar manner.

On this basis, we propose that MSIs may sometimes sacrifice some democratic legitimacy by deflating their statutory procedures due to the belief that such a deflation can reduce the options for critical voices to threaten the MSI's validity. This idea is related to Ashforth and Gibbs' (1990: 177) suggestion that "attempts to increase legitimacy may trigger a series of vicious circles which ultimately decrease legitimacy." Moreover, it can help explain why the UNGC, which very clearly emphasizes the importance of (consensual) collaboration and learning amongst its participants, seemingly wishes to avoid unsolicited collaboration or learning when it comes to its own objectives.

In our reasoning about why MSIs might choose deflation in response to legitimacy critiques, we implicitly adopted an understanding of decision-makers in MSIs as calculative and rational (in economic, strategic and political terms). This fits the accounts that Whelan (2013), Scherer, Palazzo and Seidl (2013) and Oliver (1991), provided with regard to the costs and benefits associated with different organizational responses to external pressures and environmental demands. Following this reasoning, organizations will choose a deflationary response when that approach is associated with the greatest benefit (or the least costs) relative to alternatives (i.e., moral entrapment and decoupling). On the one hand, moral entrapment may lead to an external expectation of continuous improvement, which in turn may become (relatively) costly due to a need to match growing ambition levels among stakeholders. Decoupling, on the other hand, may be costly due to it potentially making organizations

vulnerable to exposure – which the availability of digital media has arguably made much easier – thus risking major legitimacy damage and associated costs. If both moral entrapment and decoupling are costly or risky, then deflation may appear an attractive alternative to a calculative decision-maker, even if this approach could also lend itself to the criticism of having insufficiently ambitious standards.

A related consideration is the heterogeneity of environmental demands or external pressures, and the power and influence of the different actors voicing them (Marais, 2014; Oliver, 1991; Scherer et al., 2013; Whelan, 2013). When a broad section of society is univocal in its demands, when a particularly prominent or powerful actor is making them, or when the costs associated with complying with the demand are bearable, then an organization seems likely to employ the moral entrapment strategy. If one or more of these conditions are not met, then a targeted organization may increasingly be inclined towards decoupling and deflation strategies.

In the case of the UNGC facing IAG and SOMO, it appears that these particular antagonists were relatively isolated (in spite of their ability to mobilize 80+ signatories – see Event 1) and powerless relative to other stakeholders in the UNGC. Such a situation would call for decoupling, especially if other major stakeholders do not demonstrate a strong interest in the issue. But, if other stakeholders *do* have a strong interest (e.g., certain states, other NGOs), and if the costs or risks associated with decoupling are high (den Hond et al., 2014), then deflation could be the least costly alternative. The fact that the GCO employed the deflation rather than decoupling response suggests that it might have felt unable to conceal any purported failings of either itself or its participants. It is, for example, difficult to imagine how links between CNPC/PetroChina and the Sudan government could have been concealed or denied.

By limiting the type of the human rights 'demands' it places on its participants, and by acting to limit the risk of 'public grandstanding', the GCO also appears to have secured the loyalty of its corporate participants and to have suggested to prospective participants that deflationary flexibility may also be exercised at later points in time if needed. As the UNGC is explicitly and increasingly reliant on funding from its participants (e.g. Kell & Levin, 2003: 170; UNGC, 2008: 6), this move could well have been informed by a concern to make the UNGC's principles consistent with the political and economic objectives of its (corporate) funders. The appointment of two CCP members to the Global Compact Board during the conflict (Event 25) lends further support to this suggestion.

The GCO and Board did not deflate the UNGC's mechanisms. This is not surprising, as in light of qualifications in the standards literature, the kind of 'soft' mechanisms that rely on learning through voluntary reporting, on which the UNGC is premised, are the least stringent mode by which MSIs can operate. The lack of deflation of mechanisms is therefore specific to this case as deflation of mechanisms certainly is conceivable. Indeed, the critique of the Forest Stewardship Council (FSC) by FSC-Watch – that FSC made their mechanisms less stringent – is a case in point.[10]

With such evidence and reasoning in mind, we propose that the GCO's initially surprising response to the externally constructed legitimacy conflict starts to become explainable and understandable. Indeed, and as the recent example of FIFA also suggests, it seems likely that other MSIs, and organizations more generally, may occasionally deploy a deflationary response rather than a response consistent with moral entrapment or decoupling. Yet, it seems unlikely that organizations would be willing to go 'on the record' and explicitly acknowledge

[10] FSC Watch (website) is "a group of people, FSC supporters and members among them, who are very concerned about the constant and serious erosion of the FSC's reliability and thus credibility". At several times the group pointed at how FSC, in their view, deflated its mechanisms, for instance in redefining and thereby weakening the 'controlled wood standard' (FSC Watch, 2006).

that such a response has been deployed; that they have chosen to 'talk the walk' rather than 'walk the talk'. In addition to the present study's reliance on archival materials, then, the identification and further examining of deflation responses may need to rely on more anecdotal forms of evidence too.

CONCLUSION

In this paper we have presented an analysis of an external legitimacy conflict involving one of the world's largest MSIs, the UNGC. In doing so, we have shown how MSI legitimacy conflicts can focus on an MSI's statutory procedures, mechanisms and objectives. We have also identified deflation as a third response strategy, alongside decoupling and moral entrapment, that MSIs and other organizations can employ when faced with integrity critiques that threaten their legitimacy. In the prior section, we offered an explanation of what initially seemed to be an unusual if not counter-intuitive response. Moreover, our analysis clearly and critically addresses the frequent call for more (empirical) research on the legitimacy and effectiveness of the UNGC (e.g. Voegtlin & Pless, 2014).

Our paper contributes to theory in several ways. First, we identify and explain how and why a deflation strategy can be a viable alternative for MSIs that allows them to combine their professed and actual policies in a way that differs from both the moral entrapment and decoupling responses. Although moral entrapment and decoupling have attracted most attention in the literature, we offer strong, inductively developed, reasons, for thinking that MSIs and other organizations will at least sometimes be inclined towards a deflationary response. The above noted examples of FIFA and FSC support this contention.

Second, we suggest that there is a need to differentiate between three elements of MSIs that can be made the focus of legitimacy critiques: i.e., statutory procedures, mechanisms and objectives. We argue that this distinction can be helpful in furthering the debate on legitimacy conflicts as it allows researchers to engage in the more fine-grained analysis of legitimacy

conflicts. It can, for example, help reveal the ways in which MSIs and other organizations can seek to ensure that proprietary legitimacy critiques do not get out of hand, and proceed to undermine their validity; their shared, collectively held social legitimacy judgment.

Third, our paper contributes to the abundant stream of work on UNGC by adding another, more critical, voice to that debate. Given the prominence of MSIs, and of the UNGC in particular, learning more about the ways in which such initiatives maintain their positions within a field is important to understand alternative forms of governance.

Whilst novel and important, our findings have their limitations. As they are based on a single case, we consider it important for future research to further investigate what leads to MSIs deciding between the deflation response, the moral entrapment response, and the decoupling response. Although it would be worthwhile for such investigations to be directed at other types of organizations, we suggest that such analyses are likely to prove particularly influential in the case of MSIs, because legitimacy is the effective currency of their existence. As we have only shown that MSIs can deflate their statutory procedures and objectives, it would also be interesting to know more about how deflationary moves can be applied to MSI mechanisms (as in the case of the FSC). More generally, it would prove theoretically insightful to use our ideas to characterize a population of internal and/or external legitimacy conflicts within or across industries, fields, or regions. In short, are there any clear differences between whatever categories are chosen in terms of their objectives, mechanisms and statutory procedures, and if so, why? Additionally, it would be interesting to relate these questions to the debate on implicit versus explicit CSR in the UNGC (Brown, Clark & Buono, 2018) and other MSIs, and also to explore the link with research on institutional maintenance (Lawrence, Leca & Zilber, 2013; Taupin, 2012).

Our paper has implications for practice. On the one hand, it suggests that those concerned with the continued viability and potential success of MSIs – e.g., an MSI's board and office –

will at least sometimes be better off by making their statutory procedures less democratic, and their objectives less onerous, post their initial establishment. Whatever the moral merits of such changes – which are *prima facie* difficult to endorse – some MSIs may find that deflation proves instrumentally useful in helping to protect them against (potential) validity threats, chiming in with a pragmatic approach to legitimacy (Suchman, 1995). On the other hand, we note that critical external parties need to be aware that actions guided by critical and transformative intentions could encourage MSIs to undertake measures that increase their protection against similar antagonisms in the future. Antagonists, in short, need to recognize that their efforts to battle incumbents may not only result in them being vanquished, but also in an increased likelihood of future antagonists being vanquished too. Deflation hence can be a forceful response for MSIs.

Whether or not this state of affairs is considered disheartening, and the reasons why it might be considered as such, will depend on how one sees MSIs in the first place. For those who believe that MSIs are a development of great democratic promise, then clearly, our findings are likely to prove depressing. However, our findings are potentially also disheartening for those who would like to see MSIs diminish from their current level of relative prominence: for they suggest that apparently well-grounded critiques can prove not just inconsequential but even counter-productive to their critical aims. In short, and in duly noting that moral arguments lie well outside the scope of our present aims, we suggest that the empirical events we have discussed here can potentially inform a variety of normative positions on what ought to be happening with regard to MSIs, and to global governance more generally, offering ample room for further research and debate.

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TABLE 1: CONFLICT EVENTS AND DATA SOURCES

Event	Doc.	Date	Description	Source	Stance toward UNGC	Page Count (A4)
1	1a	12-5-2008	Letter to UNGC (Exec. Director, Georg Kell) from 80+ Civil Society Organizations and Actors (the Signatories)	http://www.investorsagainstgenocide.org/	Critical	5
	1b	12-5-2008	Press Release for 1a	http://www.investorsagainstgenocide.org/	Critical	2
2	2	15-5-2008	Letter from Georg Kell (UNGC ED) to Signatories (Response to 1a)	http://www.unglobalcompact.org/docs/news_events/9.1_news_archives/2008_05_15/GCO_response_openletter.pdf	Supportive	2
3	3	2-7-2008	UN Secretary-General Ban Ki-moon's remarks at UNGC meeting in Beijing	http://www.un.org/press/en/2008/sgsm11677.doc.htm	Supportive	5
4	4	4-7-2008	Global Compact Critics blog posting on Event 3	http://globalcompactcritics.blogspot.dk/2008/07/un-secretary-general-calls-on-chinese.html	Critical	1
5	5	15-12-2008	Letter to UNGC (Exec. Director, Georg Kell) from Signatories	http://www.investorsagainstgenocide.org/	Critical	6
6	6a	7-1-2009	Letter to UNGC (Exec. Director, Georg Kell) from Signatories	http://www.investorsagainstgenocide.org/	Critical	1
	6b	7-1-2009	Press Release for 6b	http://www.investorsagainstgenocide.org/	Critical	2
7	7	8-1-2009	Letter from CNPC Nile Company to UNGC (Exec. Director, Georg Kell)	http://www.unglobalcompact.org/docs/news_events/8.1/letter_CNPC.pdf	Supportive	1
8	8	12-1-2009	Letter from Georg Kell (UNGC ED) to Signatories (Response to 6a)	http://www.unglobalcompact.org/NewsAndEvents/news_archives/2009_01_12b.html	Supportive	2
9	9	1-2-2009	Letter from IAG (Eric Cohen) and SOMO (Bart Slob) to UNGC Board Members	http://investorsagainstgenocide.net/2009-0201 UNGC Board letter.pdf	Critical	2
10	10	9-2-2009	Letter from Mark Moody Stuart (Vice Chair, Global Compact Board) to IAG (Cohen) and SOMO (Slob) (Response to 9)	http://unglobalcompact.org/docs/news_events/9.1_news_archives/2009_01_12b/Sir_Mark_Letter_to_Mr._Cohen_and_Mr._Slob.pdf	Supportive	4
11	11	23-2-2009	Letter from IAG (Cohen) and SOMO (Slob) to Mark Moody Stuart (Response to 10)	http://investorsagainstgenocide.net/2009-0223 Letter to Sir Mark Moody-Stuart.pdf	Critical	1
12	12a	24-7-2009	Global Compact Board Meeting and Report - Agenda Item 2	http://www.unglobalcompact.org/docs/news_events/9.1_news_archives/2009_08_21/GC_Board_Report_J	Supportive	3

				uly2009_Final.pdf		
	12b	Undated	Global Compact Integrity Measures FAQ	https://www.unglobalcompact.org/docs/about_the_gc/Integrity_measures/FAQ_EN.pdf	Supportive	4
13	13	9-9-2009	Global Compact Critics blog posting on Event 12	http://globalcompactcritics.blogspot.dk/2009/09/global-compact-board-commends-cnpc-for.html	Critical	1
14	14	1/2-03-2010	Press Release for Sudan Workshop on 'Responsible Business and Investment in Conflict-Affected Areas', Burj Elfateh Hotel Khartoum, Sudan, 1-2 March 2010	https://www.unglobalcompact.org/news/12-03-02-2010	Supportive	3
15	15	29-3-2010	UNGC Good Practice Note on 'How Business Can Encourage Governments to Fulfil their Human Rights Obligations'	http://www.unglobalcompact.org/docs/issues_doc/human_rights/Resources/Governments&HumanRights_Good_Practice_Note.pdf	Supportive	11
16	16a	May 2010	UNGC and John Ruggie statement on link between UNGC and UN 'Protect, Respect and Remedy' Framework	https://www.unglobalcompact.org/docs/issues_doc/human_rights/Resources/UNGC_SRSGBHR_Note.pdf?utm_medium=email&utm_source=MonthlyBulletin&utm_content=413454678&utm_campaign=UNGlobalCompactBulletinJune2010subscribers&utm_term=DownloadNote	Supportive	2
	16b	Unknown	Secure Dignity and Equality for All Human Beings	https://www.unglobalcompact.org/what-is-gc/our-work/social/human-rights	Supportive	2
17	17	9-6-2010	Global Compact Critics Blog on Event 16	http://globalcompactcritics.blogspot.dk/2010/06/un-global-compact-and-special.html	Critical	2
18	18	June 2010	UNGC and PRI 'Guidance on Responsible Business in Conflict-Affected and High-Risk Areas	https://www.unglobalcompact.org/docs/issues_doc/Peace_and_Business/Guidance_RB.pdf	Supportive	48
19	19	23-6-2010	Hugh Williamson (*Financial Times*) article on Global Compact Critics: 'CSR in Emerging Economies: Style Still Trumps Substance'	http://globalcompactcritics.blogspot.dk/2010/06/csr-in-emerging-economies-style-still.html	Critical	3
20	20	Sept 2010 (publicised March 2011)	Joint Inspection Unit Report on 'United Nations corporate partnerships: The role and functioning of the Global Compact'	https://www.unjiu.org/en/reports-notes/archive/United Nations corporate partnerships -The role and functioning of the Global Compact.pdf	Critical	30
21	21a	24-3-2011	Global Compact Office response to Event 20	https://www.unglobalcompact.org/docs/news_events/9.1_news_archives/2011_03_24/gco_jiu_response.pdf	Supportive	6
	21b	24-3-2011	UNGC Press Release for Event 21	https://www.unglobalcompact.org/news/109-03-24-	Supportive	3

				2011		
	21c	25-3-2011	Mark Moody Stuart (Vice Chair, UN Global Compact Board) Letter to JIU in response to Event 20	https://www.unglobalcompact.org/docs/news_events/9.1_news_archives/2011_03_24/SirMark_LetterJIU110325.pdf	Supportive	2
22	22	26-3-2011	Global Compact Critics Blog Posting on Event 21	http://globalcompactcritics.blogspot.dk/2011/03/global-compact-rejects-independent.html	Critical	2
23	23	28-3-2011	Global Compact Critics Blog Posting on Event 20	http://globalcompactcritics.blogspot.dk/2011/03/un-inspectors-blast-un-global-compact.html	Critical	2
24	24	14-4-2011	UNGC Integrity Measures Update	https://www.unglobalcompact.org/docs/about_the_gc/Integrity_measures/Integrity_Measures_Note_EN.PDF	Supportive	4
25	25	16-5-2011	UNGC Press Release on Board Appointment	https://www.unglobalcompact.org/news/124-05-16-2011	Supportive	3
26	26	20-6-2011	Global Compact Critics Blog on Event 25	http://globalcompactcritics.blogspot.dk/2011/06/divestment-proponents-alarmed-by-recent.html	Critical	2
27	27	26-3-2012	Georg Kell (Executive Director, UNGC) Interviewed for article in *The Guardian*	http://www.theguardian.com/sustainable-business/cleaning-up-un-global-compact-green-wash	Supportive	3
28	28	25-4-2012	Global Compact Critics Blog on Event 27	http://globalcompactcritics.blogspot.dk/2012/04/remarkable-change-of-discourse-in.html	Critical	1
29	29	1-9-2013	UNGC Event Report - Sustainable Business and Investment in the Global Context: Rights, Risks and Responsibilities. Beijing, China, 16-17 April 2013	http://www.global-business-initiative.org/wp-content/uploads/2012/05/Report-of-Business-Executives-Conference-and-Roundtable-for-Practitioners-16-17-April-2013-Beijing-English.pdf	Supportive	27
30	30	27-2-2015	Global Compact Critics Blog announces that it will no longer be updated	http://globalcompactcritics.blogspot.dk/2015/02/last-blog-post.html	Critical	1

TABLE 2: CODING GUIDELINES

Legitimacy Element *(contextual description)*	**Value** *(example)*	**Dynamics** *(example)*
Operational objectives *The UNGC is committed to promoting improved business performance with regard to human rights, labour, sustainable development, and anti-corruption. In relating its human rights principles to the UN Declaration of Human Rights, and further to other considerations, the UNGC is also associated with promoting the broader principles of (global) peace and security. The conflict itself related specifically to the UNGC's human rights principles, and to the concern to promote a peaceful, secure, and sustainable/developing, world.*	**Supportive**—Evidence of the description of, or of positive references to, human rights, peace, security, and sustainability/development. *(Event 2: "The Global Compact Office and its Human Rights Working Group… stand ready to help participants with their efforts to support and promote the human rights embodied in the UDHR.")* **Critical**—Reference to shortcomings or failings of human rights, peace, security, and sustainability/development; or to the need for some sort of alternative objectives. *(Event 13: "According to the report, the [UNGC] Board decided to maintain PetroChina as a participant in the Compact, in spite of a complaint supported by over 80 civil society organizations… that PetroChina is complicit in human rights abuses in Sudan... The report of the Global Compact Board explains that 'the Board agreed that the operation of a company in a weakly governed or repressive environment would not be sole grounds for removal.")* **Null**—No reference to UNGC's operational objectives	**Stable**—No reference to a recent or forthcoming change to the UNGC's operational objectives by the UNGC. *(Event 2: "the [GCO] and its Human Rights Working Group… stand ready to help participants with their efforts to support and promote the human rights embodied in the UDHR.")* **Change**—Reference to a recent or forthcoming change to the UNGC's operational objectives by the UNGC. *(Event 8: "We are currently planning to embark on a study into the trade-offs between engagement and divestment in conflict-prone countries.")* **Null**—No reference to UNGC's operational objectives
Mechanisms *The UNGC is a voluntary initiative concerned to promote learning and deliberation amongst the business community as to best practice in corporate social responsibility. It is not an enforcement/hierarchic mechanism.*	**Supportive**—Evidence of the description of, or of (previous or possible) benefits relating to, the UNGC's learning and deliberative means. *(Event 10: "the United Nations Global Compact is focused on practical engagement on the ground through learning, dialogue and partnerships.")* **Critical**—Reference to shortcomings or failings of the UNGC's learning and deliberative means, or to the benefits of rule-based means.	**Stable**—Reference to UNGC's mechanisms, but no reference to a recent or forthcoming change. *(Event 10: "the United Nations Global Compact is focused on practical engagement on the ground through learning, dialogue and partnerships.")* **Change**—Reference to recent or forthcoming change to UNGC's mechanisms *(No evidence found)*

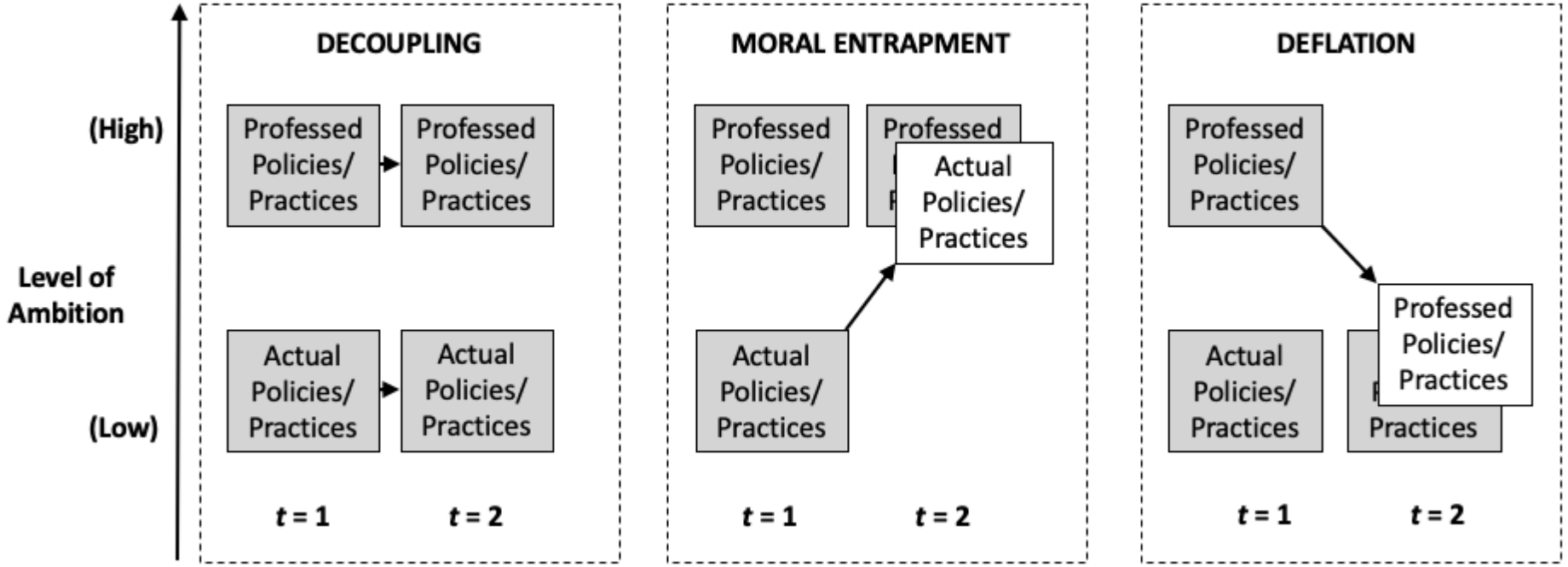
	(Event 1: "The Global Compact is...often criticized by civil society organizations because of its purely voluntary nature.") **Null**—No reference to UNGC's mechanisms	**Null**—No reference to UNGC's mechanisms
Statutory Procedures *The conflict was initiated when IAG and SOMO (and 'The Signatories') encouraged the UNGC to use its fourth integrity measure 'Allegations of Systematic or Egregious Abuses' to 'discipline' PetroChina for the Sudanese operations of its parent company, PetroChina. More broadly, the conflict related to the governance structures (e.g., board membership) by which the UNGC is directed.*	**Supportive**—Evidence of the description of, or of positive references to, the UNGC's fourth integrity measure and/or its application; and to other aspects of the UNGC's structure (e.g., board membership). *(Event 2: "Our role under the integrity measures is limited to encouraging dialogue between companies and those that make credible allegations of systematic or egregious abuse by companies of the Global Compact's overall aims and principles.")* **Critical**—Reference to shortcomings or failings of the UNGC's fourth integrity measure or its application; and/or to other aspects of the UNGC's structure (e.g., board membership). *(Event 11: "The Global Compact... Office's interpretation of the [Integrity] Measures is very different from ours. Our understanding of the process is that it does not call for evaluation of allegations but rather requires, at minimum, that the Global Compact Office request written comments from the accused company.")* **Null**—No reference to UNGC's statutory procedures	**Stable**—No reference to a recent or forthcoming change to the UNGC's fourth integrity measure, or to other aspects of the UNGC's structure (e.g., board membership), by the UNGC. *(Event 2: "Our role under the integrity measures is limited to encouraging dialogue between companies and those that make credible allegations of systematic or egregious abuse by companies of the Global Compact's overall aims and principles.")* **Change**—Reference to a recent or forthcoming change to the UNGC's fourth integrity measure, or to other aspects of the UNGC's structure (e.g., board membership), by the UNGC *(Event 10: "We will also review the processes described in the integrity measures to see whether greater clarity is needed.")* **Null**—No reference to UNGC's statutory procedures

TABLE 3: CODING OF THE EXTERNAL LEGITIMACY CONFLICT

Event	Stance toward UNGC	Objectives		Mechanisms		Statutory Procedures	
		Value	Dynamics	Value	Dynamics	Value	Dynamics
1	Critical	Supportive	Stable	Critical	Stable	Supportive	Stable
2	Supportive	Supportive	Stable	Supportive	Stable	Supportive	Stable
3	Supportive	Supportive	Stable	Supportive	Stable	--	--
4	Critical	Supportive	Stable	Supportive	Stable	Critical	Stable
5	Critical	Supportive	Stable	Supportive	Stable	Critical	Stable
6	Critical	Supportive	Stable	Supportive	Stable	Critical	Stable
7	Supportive	Supportive	Stable	Supportive	Stable	--	--
8	Supportive	Supportive	Change	Supportive	Stable	Supportive	Stable
9	Critical	Supportive	Stable	Supportive	Stable	Critical	Stable
10	Supportive	Supportive	Change	Supportive	Stable	Supportive	Change
11	Critical	--	--	--	--	Critical	Change
12	Supportive	Supportive	Change	Supportive	Stable	Supportive	Change
13	Critical	Critical	Change	--	--	Critical	Stable
14	Supportive	Supportive	Change	--	--	--	--
15	Supportive	Supportive	Change	Supportive	Stable	--	--
16	Supportive	Supportive	Change	Supportive	Stable	--	--
17	Critical	Critical	Change	--	--	--	--
18	Supportive	Supportive	Change	Supportive	Stable	--	--
19	Critical	Supportive	Stable	Critical	Stable	Critical	Change
20	Critical	Critical	Stable	Critical	Stable	Critical	Stable
21	Supportive	Supportive	Stable	Supportive	Stable	Supportive	Stable
22	Critical	Supportive	Stable	Critical	Stable	Critical	Stable
23	Critical	Supportive	Stable	Supportive	Stable	Critical	Stable
24	Supportive	Supportive	Stable	Supportive	Stable	Supportive	Change
25	Supportive	Supportive	Stable	Supportive	Stable	Supportive	Change
26	Critical	--	--	--	--	Critical	Change
27	Supportive	Supportive	Stable	Supportive	Stable	Supportive	Change
28	Critical	--	--	--	--	Supportive	Change
29	Supportive	Supportive	Stable	Supportive	Stable	--	--
30	Critical	--	--	Critical	Stable	--	--

Note: "--" indicates that no information was found ('null')

FIGURE 1: DECOUPLING, MORAL ENTRAPMENT, AND DEFLATION



Note: In each of the three illustrated responses, t=1 depicts a situation that has alternatively been labeled as mission drift, organizational hypocrisy, window-dressing, green washing, lack of integrity, inauthenticity, etcetera.

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